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The right system for bright futures

FY 2011 BUDGET REVIEW

SUMMARY

SEPTEMBER 11, 2009

A.R.S. §8-1181 requires the Board to adopt a comprehensive budget by October 31 of each year for programs and administration funding for the next fiscal year. There are specific information requirements and the Board is to conduct a public hearing to review the finances and adopt a budget. The requirements include:

- 1) Receipts during the last and current year;
- 2) Expenditures during the past fiscal year and year-to-date;
- 3) Estimates of expenses for regional plans, statewide grants, educational activities, administrative costs, and federal grants or gifts;
- 4) Anticipated revenue by source;
- 5) An asset and liability statement;
- 6) Cash on hand and anticipated balance at the end of the current fiscal year; and,
- 7) An itemized statement of commitments, reserves and anticipated obligations for the next fiscal year.

Statement of Assets and Liabilities

Page 4 shows that FTF total assets are **\$383.0** million as of August 31, 2009, which is an increase of **\$106.3** million over the amount reported for the end of September, 2008. Cash and investments make up all but **\$1.1** million of the total. The remainder is plant and equipment purchased since the agency start up minus the depreciation of these assets. There are no long term liabilities.

Statement, Receipts and Expenditures

The Statement of Receipts and Expenditures on page 5 shows that FTF expects total revenues of **\$140.1** million in FY 2011, which is a 3.91% reduction from the **\$145.8** million estimated for this fiscal year. The reason for the decrease is the greater than expected decline in tobacco tax revenues. The taxes are distributed 90% to programs and 10% to administration as provided by statute. The investment earnings are also distributed in the same manner by order of the Board last year. The expenditures shown are staff recommendations for Evaluations, Regional Programs, Statewide Programs and Administrative spending for both FY 2010 and FY 2011. While there appears to be a significant increase in spending for FY 2011 compared to the total shown for 2010, the real difference is that some funding originally to be expended in FY 2010 was moved in FY 2009 as part of the emergency response to the economic crisis plaguing Arizona families with young children. The net loss for FY 2011, however, is due to expenditures exceeding revenues by an estimated **\$16.3** million. Since regional and statewide grants will be in full swing, the ending balance will start to decrease as expenditures start outgrowing

revenues. The speed at which approved regional programs roll out will have some impact on the ending balances. Start up time may mean that some approved funding does not take place during the year for which funding was approved and a grant awarded.

In addition to the above, no information is provided on potential federal grants or other external funding raising to support the early childhood investment. Efforts will continue to seek other funds, but no estimates or predictions of the degree of success in this effort have been made.

FY 2010 Cash Projections Schedule

On page 6 you will find that cash is expected to grow from **\$355.7** million at the end of FY 2009, to **\$364.3** million by the end of FY 2010. The ending balance for FY 2009, however, reflects the legislative sweep of **\$7.0** million of FTF interest earnings to balance the state budget shortfall in January, 2009. This money was returned as a result of a Supreme Court ruling in July, 2009, and shows up as additional revenue in FY 2010. If adjusted for this phenomenon, the actual cash balance for FY 2010 would have been only about \$2 million higher than FY 2009. The bulk of the cash on hand (77.18%) will be in the Programs Fund.

FY 2011 Budget Summary

A Summary of the Fiscal 2011 budget proposal by revenue source and expenditure fund is shown on page 7. It also shows the expected ending balances at the end of the fiscal year in each of the funds (administration, statewide and regional), with the total balance estimated at **\$348.0** million at the end of June, 2011. As mentioned above, this is the first year in which overall expenditures will exceed expected revenues. Actual balances may be higher than reported as not all statewide and regional dollars may be expended as rapidly as planned. It is also important to note the FY 2011 budget is the first to show a set aside of \$1 million of administrative account funds for regional program evaluations. The administrative budget is nearly \$1.1 million lower than FY 2010 because most of the agency one-time start-up costs for furniture, equipment and processing systems development have been accounted for.

Statewide Funding

Initial projected funding for the statewide initiatives portion of the FY 2011 proposed budget are shown on page 8, along with a comparison of the amounts of statewide funding either adopted or expected during the remainder of FY 2010. Quality First shows a small increase that will be used to roll out the quality rating system and the Parent Kits item shows a small decrease indicative of the volume of Kits that are projected to be needed during FY 2011. Communications, TEACH, Health Consultation, and Competitive Grants are all funded as previously adopted by the Board. Some funds are also left for the Compensation & Retention initiative still in development and any other statewide efforts the Board may choose to address. Note the funding for statewide initiatives is kept within the 10% limit for use of Program Funds for statewide purposes as prescribed by law.

Regional and Evaluation Funding

Regional funding recommendations are shown on page 9 and are consistent with the Board actions taken in August in approving allocations of funds to the various regions so funding plans could be developed by the RPC's. The amount for FY2011 reflects the 1% increase planned increase for Regional Program spending.

Administration Funding

The Administration funding on page 10 reflects a reduction from the current year's budget (\$15,783,285), but still includes some onetime costs to complete the grants and information management system. This budget is based on estimated costs for each line item throughout the fiscal year, and future budgets will be based on previous actual costs and estimated future costs. Also in the FY 2011 budget is 1 additional staff persons to assist in developing and maintaining our automated accounting, grants management and data warehouse systems when our contracted developers leave at the end of calendar 2010. Seven positions are being left unfunded in this budget in an effort to reduce costs and evaluate whether or not they are truly needed.

Sustainability Analysis

This year, the sustainability analysis is based on the revenue and expenditure estimates and proposals shown in the FY 2011 budget. The chart on page 12 shows that, given the estimates for total revenues and expenditures, FTF would be able to sustain all early childhood funding through FY 2018. This assumes:

- 1) 1% annual growth for program spending will be provided for regional program spending;
- 2) Annual growth for administration spending will be limited to no more than 1%;
- 3) The average annual decline in tobacco revenues will be 4%;
- 4) FTF will obtain at least a 1% average annual yield on investments starting in FY 2011; and
- 5) Distribution of investment earnings will continue to be 90% to Programs and 10% to Administration.

The most drastic adjustment made in this analysis was the decrease of projected revenues to an average 4% annual decline. FY 2009 revenues were more than 8% lower than in FY 2008. However, some of this decline was attributed to the overall decline in the economy at the time. This adjustment is for sustainability analysis *only* and is not intended to replace the annual budget adoption process.

Administrative Cost Chart

The chart on page 13 reflects the Administrative share of total costs each year from FY 2010 through FY 2020. The analysis in creating this chart assumed a 1% annual growth in administration expenditures over the FY 2011 amount of \$14.68 million. This does not reflect any added costs for staff pay raises, although some years there may be savings or less rapid growth in other expenses that would provide some funds for pay raises within the 1% allowance. While the FY 2010 shows the administrative costs to be nearly 11% of the total, in actuality, the amount is about 10%. Over \$13 million of FY 2010 program spending was shifted in FY 2009 as part of the emergency response efforts of the Board. If those monies were actually expended in FY 2010 as originally budgeted, the administrative costs would have been right at 10% of the total.

As previously noted and based on the discussions at the last Board meeting, the source for funding Evaluation expenditures will be from the total program funds.



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Statement of Assets and Liabilities at August 31, 2009

UNAUDITED

	PROGRAMS	ADMINISTRATION	GRANTS	PRIVATE GIFTS	TOTAL
ASSETS					
Cash & Investments on Hand					
Statewide Grants- 10%	\$29,727,613				
Regional Grants- 90%	267,548,515				
Total Cash Available @ 8/31/09	\$297,276,128	\$84,615,552	\$19	\$5,864	\$381,897,564
Receivables					
Federal Grants Receivable					
State & Local Grants Receivable					
Tax Revenue Receivable					
Investment Income Receivable					
Private Gifts Receivable					
Property, Plant & Equipment (Net Book Value)	\$1,082,925	\$0	\$0	\$0	\$1,082,925
TOTAL ASSETS	\$298,359,053	\$84,615,552	\$19	\$5,864	\$382,980,490
COMMITMENTS (Liabilities)	\$0	\$0	\$0	\$0	\$0
Reserves	\$0	\$0	\$0	\$0	\$0
FUND BALANCE @ 8/31/09	\$298,359,053	\$84,615,552	\$19	\$5,864	\$382,980,490
TOTAL LIABILITIES & RESERVES	\$298,359,053	\$84,615,552	\$19	\$5,864	\$382,980,490

Note: Amounts rounded to nearest dollar

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STATEMENT OF RECEIPTS AND EXPENDITURES

Amounts rounded to nearest dollar	FY 2009 ACTUAL UNAUDITED	FY 2010 YTD THRU 8/31/09	FY 2010 BUDGETED	FY 2011 BUDGET
RECEIPTS(Revenue)				
Tobacco Luxury Tax				
Administration	\$15,136,382	\$2,222,511	\$14,225,536	\$13,656,514
Programs	136,227,433	20,002,600	128,029,821	122,908,629
Total Tobacco Luxury Tax	\$151,363,815	\$22,225,112	\$142,255,357	\$136,565,143
Investment Income				
Administration	\$533,490	\$122,359	\$354,680	\$354,309
Programs	4,801,414	1,101,232	3,192,121	3,188,782
Total Investment Income	\$5,334,905	\$1,223,591	\$3,546,801	\$3,543,091
Federal Grants	\$155,793	\$0	\$0	\$0
Other Grants: State & Local	3,500	0	0	0
Private Gifts	6,925	0	0	0
Other Revenue	824	0	0	0
Fund Sweep	(7,000,000)	\$7,015,127	\$7,015,127	\$0
TOTAL RECEIPTS	\$149,865,761	\$30,463,830	\$152,817,285	\$140,108,234
EXPENDITURES				
Administrative Funds				
Operations	\$14,225,676	\$2,574,748	\$15,783,285	\$14,680,728
Needs & Assets			500,000	0
Regional Evaluations			0	1,000,000
Total Administrative Funds	\$14,225,676	\$2,574,748	\$16,283,285	\$15,680,728
Program Funds				
Longitudinal Study	131,790	69,688	9,291,144	4,000,915
Regional Grants	13,849,242	623,619	107,650,758	122,715,000
Statewide Grants	3,046,347	1,001,330	10,953,653	14,000,000
Total Program Funds	\$17,027,380	\$1,694,637	\$127,895,554	\$140,715,915
Federal Grants & Other Expenditures	\$164,345	\$0	\$0	\$0
TOTAL EXPENDITURES	\$31,417,400	\$4,269,385	\$144,178,839	\$156,396,643
GAIN (LOSS)*	\$118,448,360	\$26,194,444	\$8,638,446	(\$16,288,410)
Increase(Decrease) in Fund Balance	\$118,448,360	\$26,194,444	\$8,638,446	(\$16,288,410)

* Fund balances are used to cover deficits.

NOTE 1

FY 2009 reflects a \$7 million fund sweep. FTF was awarded relief in a Supreme Court ruling in July 2009 on the \$7 million plus interest that would have been earned on the funds since the sweep.



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FY 2010 Cash Projection Schedule

	PROGRAMS	ADMINISTRATION	FEDERAL GRANTS	PRIVATE GIFTS	TOTAL
Cash Balance at end of FY2009	\$272,254,832	\$83,442,405	\$19	\$5,864	\$355,703,120
Add: Projected FY 2010 Cash Inflows					
Luxury Tobacco tax receipts	128,029,821	14,225,536	0	0	142,255,357
Investment Income	3,192,121	354,680	0	0	3,546,801
Sub-total State Cash Inflows	<u>\$131,221,942</u>	<u>\$14,580,216</u>	<u>\$0</u>	<u>\$0</u>	<u>\$145,802,158</u>
Federal Grants					
Fund Sweep	5,612,102	1,403,025			7,015,127
Total Inflows	\$136,834,044	\$15,983,241	\$0	\$0	\$152,817,285
Less: Projected FY 2010 Cash Outflows					
Administrative Funds:					
Operations	\$0	\$15,783,285	\$0	\$0	\$15,783,285
Needs & Assets	0	500,000	0	0	500,000
Program Funds:					
Evaluations	9,291,144	0	0	0	9,291,144
Statewide Grants	10,953,653	0	0	0	10,953,653
Regional Grants	107,650,758	0	0	0	107,650,758
Sub-total State Cash Outflows	<u>\$127,895,554</u>	<u>\$16,283,285</u>	<u>\$0</u>	<u>\$0</u>	<u>\$144,178,839</u>
Federal Grants					
Total Outflows	\$127,895,554	\$16,283,285	\$0	\$0	\$144,178,839
Projected Cash Balances end of FY2010	\$281,193,322	\$83,142,361	\$19	\$5,864	\$364,341,567

Notes: Amounts rounded to nearest dollar
FY10 Projections account for FY09 13th month figures.



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FY 2011 Budget Summary

	ADMINISTRATION	PROGRAMS	FEDERAL GRANTS	PRIVATE GIFTS	TOTAL
Cash Balance at end of FY2010	\$83,142,361	\$281,193,322	\$19	\$5,864	\$364,341,567
Luxury Tobacco Tax	13,656,514	122,908,629			136,565,143
Investment Revenue (See Note 1)	354,309	3,188,782			3,543,091
Total	\$97,153,185	\$407,290,732	\$19	\$5,864	\$504,449,800
Less: Projected Expenditures					
Administration	\$14,680,728				\$14,680,728
Regional Evaluations	1,000,000				1,000,000
Total Admin Funds	\$15,680,728				\$15,680,728
Program Funds					
Evaluations		4,000,915			4,000,915
Regional Grants		122,715,000			122,715,000
Statewide Grants		14,000,000			14,000,000
Total Expenditures	\$15,680,728	\$140,715,915	\$0	\$0	\$156,396,643
Estimated Balance at end of FY2011	\$81,472,457	\$266,574,816	\$19	\$5,864	\$348,053,157

Note: Amounts rounded to nearest dollar

Note 1

Investment earnings are allocated to administration in the same manner as tobacco revenue, i.e., 10% to administration and 90% to programs.

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FY 2011 Budget -- Program Funds Statewide Funding (Millions of Dollars)

	<u>FY 2010</u>	<u>FY 2011</u>
Quality First	\$6.0	\$6.1
Communications	2.0	2.0
Health Initiatives	1.0	1.0
Parent Kits	0.7	0.6
TEACH	1.5	1.5
Child Care Health Consultation	1.2	1.2
Competitive Grants	1.0	1.0
Comp. & Retention/Other	<u>0.6</u>	<u>0.6</u>
Total Funding :	<u><u>\$14.0</u></u>	<u><u>\$14.0</u></u>

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FY 2011 Budget -- Program Funds Regional Funding (Millions of Dollars)

	<u>FY 2010</u>	<u>FY 2011</u>
Regional Allocation:		
0-5	\$42.6	\$43.0
Poverty	48.6	49.1
Total	<u>\$91.2</u>	<u>\$92.1</u>
Discretionary:		
Distribution	30.3	30.6
Grand Total	<u><u>\$121.5</u></u>	<u><u>\$122.7</u></u>

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AZ Early Childhood Development and Health Board - FTF

Financial Comparison

Fund 2543 -- Admin. Costs Account

	Total FTE's	FY 2010 Budget Approved	Total FTE's	FY 2011 Budget Draft
Personal Services	143.5/136.5	\$8,317,552	144.75/137.75	\$8,452,420
ERE's		\$2,634,359		\$2,666,117
Professional Services		\$1,720,169		\$895,108
Travel In-State		\$703,310		\$501,778
Travel Out-of-State		\$63,898		\$57,922
Other Operating Expenditures / & Food		\$2,084,970		\$1,938,143
Capital & Non-Capital Equipment		\$259,026		\$169,241
Totals		\$15,783,285		\$14,680,729

* Increase in number of FTE's;
Rates for FY 2010 and FY 2011 =

Health/Dental/Life per FTE = 7.6836 x a thousand

Marginal ERE Rate = 0.191504980653

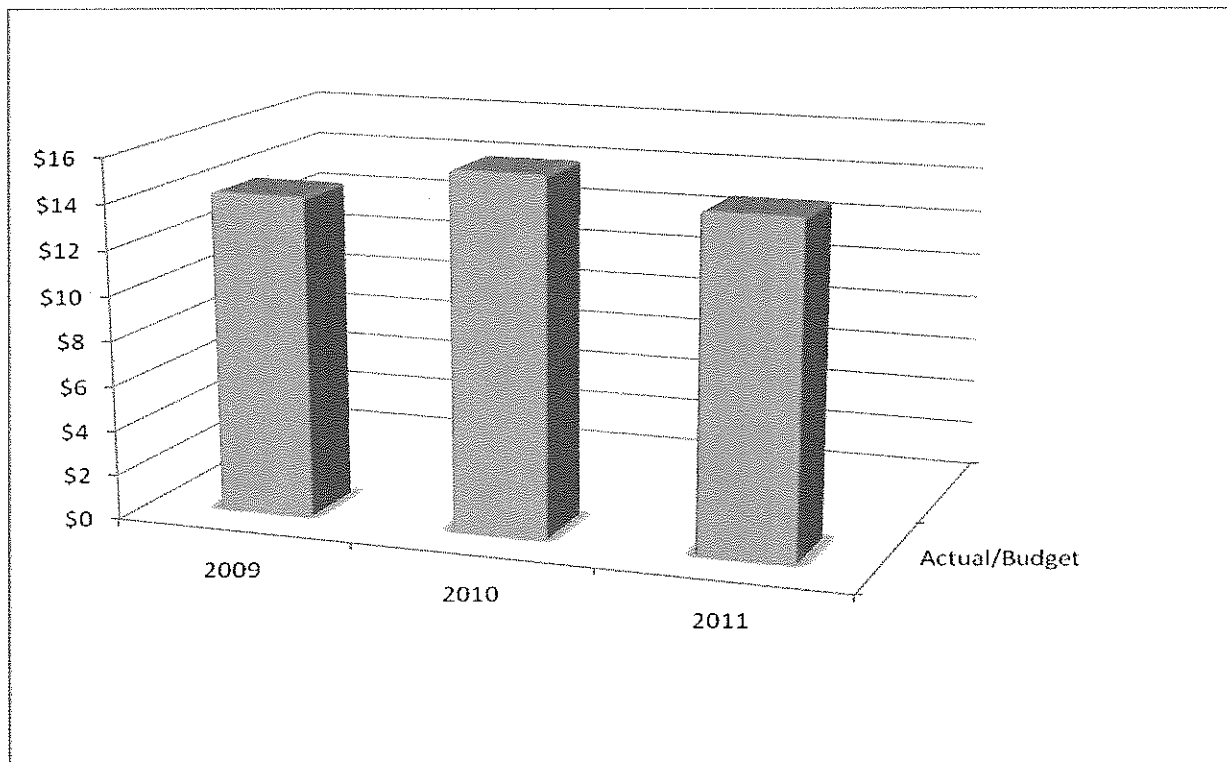


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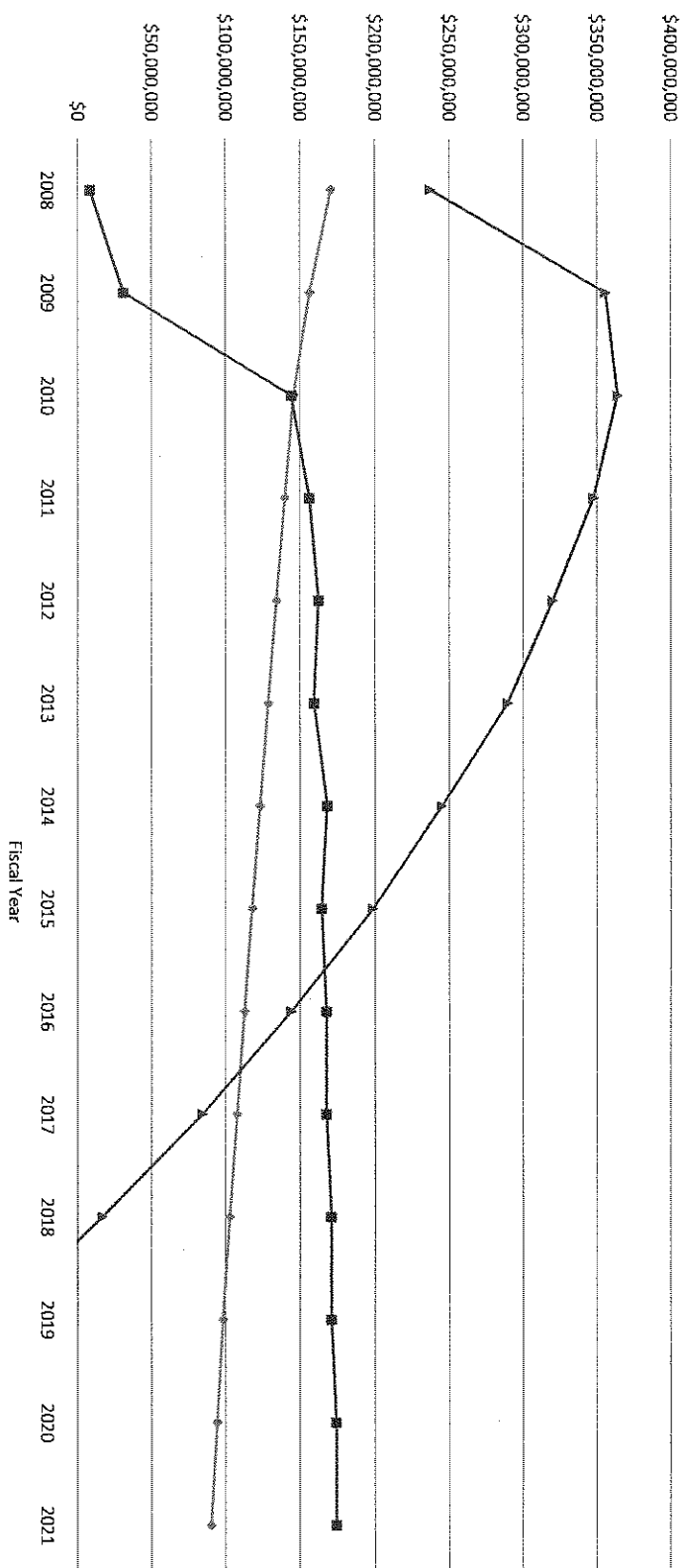
Operating Budget Comparison

FY 2009 – FY 2011



2009 Actual	\$14.23 million	135 FTE's
2010 Budget	\$15.78 million	136.5 FTE's
2011 Budget	\$14.68 million	137.75 FTE's

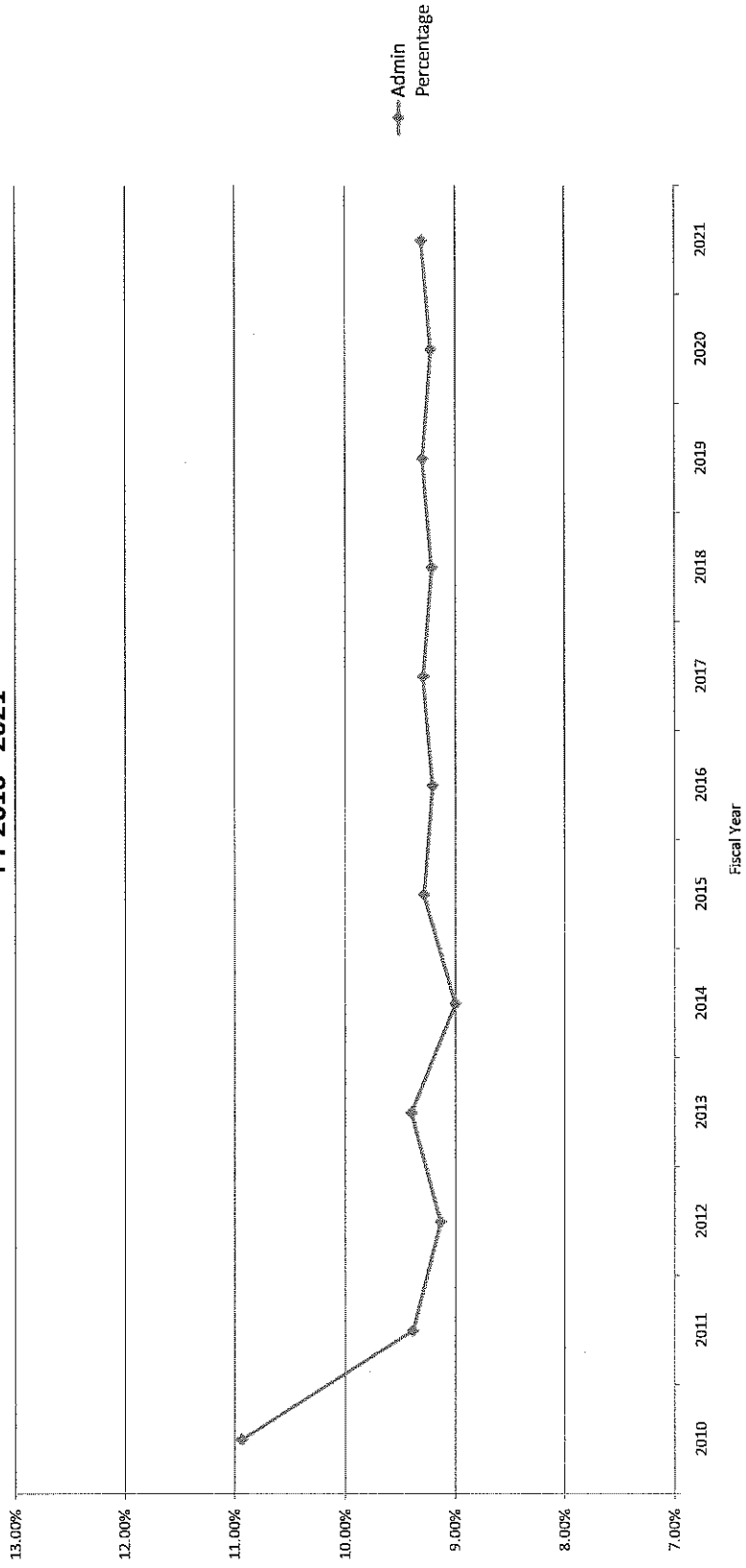
SUSTAINABILITY ANALYSIS
4% ANNUAL DECLINE,
1% PROGRAM INCREASE / POPULATION GROWTH



Year	REVENUE	EXPENSES	REVISED FUND BALANCE
2008	\$ 170,948,183	\$ 8,304,546	\$ 237,178,825
2009	\$ 156,699,544	\$ 31,181,133	\$ 355,697,236
2010	\$ 145,802,158	\$ 144,289,688	\$ 364,224,833
2011	\$ 140,108,234	\$ 156,396,643	\$ 347,596,423
2012	\$ 134,425,646	\$ 162,353,523	\$ 320,008,547
2013	\$ 128,891,120	\$ 159,398,669	\$ 289,560,998
2014	\$ 123,483,545	\$ 168,056,833	\$ 244,987,709
2015	\$ 118,198,422	\$ 164,509,079	\$ 198,677,052
2016	\$ 113,057,042	\$ 167,594,915	\$ 144,139,179
2017	\$ 108,094,825	\$ 167,696,610	\$ 84,477,395
2018	\$ 103,125,342	\$ 170,814,321	\$ 16,798,416
2019	\$ 98,516,671	\$ 170,948,209	\$ (55,643,122)
2020	\$ 94,576,004	\$ 174,098,437	\$ (135,165,555)
2021	\$ 90,792,964	\$ 174,265,166	\$ (218,697,758)
	\$ 1,726,659,700	\$ 2,019,847,772	

Administrative-Operation Costs as a Percentage of Total Costs External Evaluation out of Regional Discretionary Funds

FY 2010 - 2021



Year	Total Exp	Admin Ops. Exp	Admin Ops. %
2010	\$ 144,289,688	\$ 15,783,285	10.94%
2011	\$ 156,396,643	\$ 14,680,728	9.39%
2012	\$ 162,353,523	\$ 14,827,535	9.13%
2013	\$ 159,338,669	\$ 14,975,811	9.40%
2014	\$ 168,056,833	\$ 15,125,569	9.00%
2015	\$ 164,509,079	\$ 15,276,824	9.29%
2016	\$ 167,594,915	\$ 15,429,593	9.21%
2017	\$ 167,696,610	\$ 15,583,889	9.29%
2018	\$ 170,814,321	\$ 15,739,727	9.21%
2019	\$ 170,948,209	\$ 15,897,125	9.30%
2020	\$ 174,098,437	\$ 16,056,096	9.22%
2021	\$ 174,265,166	\$ 16,216,657	9.31%
	\$ 1,806,096,927	\$ 169,376,181	